

Message Text

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COME-00 EUR-25 STR-08 DRC-01 /155 W
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R 100940Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 693

INFO USLO PEKING

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 5250

E.O. 11652: GDS

TAGS: ETRD PINT CH

SUBJ: THE EFFECT OF THE ANTI-LIN, ANTI-CONFUCIUS CAMPAIGN OF
CHINA'S FOREIGN TRADE

REF: A. HK 865; B. HK 3559; C. HK 3754; D. HK 4569

SUMMARY: CHINA'S CURRENT POLITICAL CAMPAIGN HAS INCLUDED AN INCREASINGLY PUBLIC DEBATE OVER THE QUESTION OF THE PROPER LEVEL FOR IMPORTS OF FOREIGN PLANT AND MACHINERY. IN THE PAGES OF NEWSPAPERS AND PARTY JOURNALS, LEFTIST CRITICS HAVE ASSAILED CHINESE ECONOMIC OFFICIALS FOR OVER-RELIANCE ON FOREIGN EQUIPMENT. THESE OFFICIALS HAVE APPARENTLY RESISTED AND SO FAR THERE HAVE BEEN SOME CHANGES IN THE FORM, BUT LITTLE DIFFERENCE IN THE SUBSTANCE OF CHINA FOREIGN TRADE PRACTICE. IN THE CASE OF US/CHINA TRADE, THE CAMPAIGN HAS COMPOUNDED EXISTING PROBLEMS, CHANGED ATMOSPHERICS AND PROBABLY CAUSED THE CANCELLATION OF A CCPIT DELEGATION VISIT TO THE US. THIS MESSAGE DRAWS TOGETHER OUR OBSERVATIONS ON THE CAMPAIGN'S EFFECT ON CHINA'S FOREIGN TRADE. END SUMMARY.

1. IN 1973 CHINA'S IMPORTS INCREASED BY AN UNPRECEDENTED
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\$2 BILLION IN FOREIGN PLANT AND EQUIPMENT. OVER \$800

MILLION OF THIS WAS PURCHASED ON MEDIUM TERM CREDIT. THE RESULT OF THIS WAS A YEAR END TRADE DEFICIT OF SOME \$500 MILLION AND A TOTAL CREDIT IMBALANCE FOR PLANTS AND AGRICULTURAL PURCHASES OF \$1.6 BILLION (HK A-96). IN CARRYING OUT THIS EXPANDED IMPORT PROGRAM, CHINESE TRADE OFFICIALS DEPARTED FROM CHINA'S PAST FOREIGN TRADE PRACTICES AND ITS TRADITIONAL POLICY OF "SELF-RELIANCE."

2. AGAINST 1973'S PERFORMANCE, ELEMENTS OF THE POLITICAL LEFT LAUNCHED AN ATTACK WHICH HAS BECOME INCREASINGLY PUBLIC IN 1974. SO FAR THIS ATTACK HAS FOCUSED ON THE QUESTION OF "OVER-RELIANCE ON FOREIGN TECHNOLOGY" (A CODE PHRASE FOR PURCHASES OF FOREIGN PLANT AND MACHINERY). DURING THE FIRST FOUR MONTHS OF THIS YEAR, ARTICLES CRITICIZING OVER RELIANCE ON IMPORTS AND THOSE WHO "BLINDLY WORSHIP FOREIGN THINGS" APPEARED IN RED FLAG (REF A), PEOPLE'S DAILY (REF B), AND THE SHANGHAI JOURNAL STUDY AND CRITICISM (REFS C & D). PHRASES CRITICIZING OVER RELIANCE ON IMPORTS HAVE NOW BECOME A STANDARD PART OF THE RHETORIC OF THE CURRENT POLITICAL CAMPAIGN AND APPEAR REGULARLY IN NCNA ARTICLES DISCUSSING INDUSTRIAL PRODUCTION.

3. THE ROLE OF IMPORTS IN INDUSTRIALIZATION IS A KEY FACTOR IN DETERMINING THE PACE AND METHOD OF CHINA'S ECONOMIC DEVELOPMENT. BY FOCUSING THEIR CRITICISM ON PLANT AND MACHINERY IMPORTS THE LEFTISTS HAVE ALSO ATTACKED CHINA'S ECONOMIC OFFICIALS ON AN ISSUE WHERE THEY ARE PARTICULARLY AT VARIANCE WITH THE IDEALS OF THE CULTURAL REVOLUTION, TRADITIONAL INTERPRETATION OF MAOIST DOCTRINE, AND, THUS, MOST VULNERABLE.

4. SO FAR, HOWEVER, THE LEFTISTS HAVE ENCOUNTERED CONSIDERABLE RESISTANCE AND RELUCTANCE TO CHANGE. CHINA HAS ALWAYS RESPECTED THE SANCTITY OF CONTRACTS SO THAT PURCHASES ALREADY MADE COULD NOT BE CANCELLED. ALLOCATIONS PLANNED AND BUDGETED FOR LARGE FOREIGN PURCHASES COULD NOT BE EASILY SHIFTED TO DOMESTIC SOURCES OF SUPPLY. THOSE RESPONSIBLE FOR FOREIGN TRADE DECISIONS HOLD HIGH GOVERNMENT POSITIONS AND ALSO HAVE STRONG ARGUMENTS IN THEIR FAVOR. AS OUTLINED IN THE JANUARY AND MARCH ISSUES
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OF STUDY AND CRITICISM, THESE ARGUMENTS ARE (1) FAILURE TO IMPORT PROVEN AND HIGHLY ADVANCED WESTERN TECHNOLOGY WILL SLOW DOWN CHINA'S ECONOMIC DEVELOPMENT; (2) CURTAILMENT OF TRADE WILL RESULT IN A RETURN TO ISOLATIONISM; AND, PRESUMABLY, (3) THIS SITUATION WOULD LEAVE CHINA AN EASY PREY FOR THE SOVIETS.

5. EVEN AGAINST MOUNTING CRITICISM, THESE ARGUMENTS HAVE

HELD UP WELL AND SO FAR THERE HAS BEEN LITTLE APPARENT CHANGE IN CHINA'S FOREIGN TRADE PRACTICES. COMPLETE PLANT PURCHASES AND NEGOTIATIONS HAVE CONTINUED. FOREIGN BUSINESSMEN HAVE CONTINUED TO BE INVITED TO PEKING. THE FOREIGN TRADE MINISTER AND VICE MINISTERS ARE ACTIVE. CHINA HAS ALREADY CONCLUDED 16 TRADE AGREEMENTS IN 1974, COMPARED WITH 14 FOR THE SAME PERIOD LAST YEAR.

6. WITH THE EXPERIENCE OF THE CULTURAL REVOLUTION BEHIND THEM, HOWEVER, CHINESE TRADE OFFICIALS WOULD BE FOOL HARDY TO TOTALLY IGNORE THEIR LEFTIST CRITICS. LATELY, THERE HAVE BEEN SIGNS OF CHANGES IN THE FORM IF NOT THE SUBSTANCE OF CHINA'S FOREIGN TRADE PRACTICES. THE NON-APPEARANCE OF THE CHINA NATIONAL TECHNICAL IMPORT CORPORATION AT THE CURRENT CANTON TRADE FAIR APPEARS PART OF AN ATTEMPT TO REDUCE THE VISIBILITY OF PLANT AND MACHINERY PURCHASES. THE FAIR'S STRONG EMPHASIS ON EXPORTS MAY ALSO BE PART OF AN ATTEMPT TO RECAST THE IMAGE OF FOREIGN TRADE--FOR THE PRESENT AT LEAST-- IN TERMS OF SELLING CHINESE PRODUCTS.

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C O N F I D E N T I A L SECTION 2 OF 2 HONG KONG 5250

7. IN THE CASE OF US-CHINA TRADE, THE CAMPAIGN HAS COMPOUNDED EXISTING PROBLEMS, CHANGED ATMOSPHERICS AND PROBABLY CAUSED THE CANCELLATION OF THE CCPIT VISIT TO THE UNITED STATES. THE CAMPAIGN'S INFLUENCE IS CLEAREST IN

THE CASE OF TCK SMUT, WHERE IT HAS CLEARLY HEIGHTENED CHINESE SENSITIVITIES AND MADE SOLUTIONS OF THE PRACTICAL PROBLEMS MORE DIFFICULT. IN A CONVERSATION WITH US SUPPLIERS, A SENIOR CEROILFOOD OFFICIAL ADMITTED TO RECEIVING CALLS IN THE NIGHT FROM PEOPLE WHO WERE UNHAPPY ABOUT INFECTED WHEAT." THE OFFICIAL SAID THE MATTER WAS HOW "OUT OF HIS HANDS" (PEKING 0699).

8. IN THE PRESENT POLITICAL ATMOSPHERE, CHINA'S LARGE TRADE IMBALANCE WITH THE US MAY HAVE BECOME AN EMBARRASSMENT FOR THE CHINSE TRADE OFFICIALS. THE DECISION TO INVITE MOSTLY US IMPORTERS TO THE CANTON TRADE FAIR AS WELL AS PRESENT WILLINGNESS TO POSTPONE WHEAT SHIPMENTS BOTH APPEAR AIMED AT REDUCING THE TRADE DEFICIT. THESE DECISIONS WOULD ALSO SEEM TO REFLECT THE INFLUENCE OF THE CAMPAIGN.

9. CAMCELLATION OF CCPIT'S VISIT AND THE POOR TREATMENT SHOWN NCUSCT VICE PRESIDENT THEROUX IN CANTON (HK 4953)
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ALSO APPEARED TO BE THE RESULT OF ANTI-FOREIGN AND ANTI-IMPERIALIST (I.E. ANTI-US) ELEMENTS IN THE CAMPAIGN. IN THE PRESENT CONTEXT , A US VISIT MIGHT PROVE EMBARRASSING, OR EVEN POLITICALLY DANGEROUS, FOR CHINSE OFFICIALS.

10. FOR THE IMMEDIATE FUTURE, CHINESE OFFICIALS WILL PROBABLY ATTEMPT TO MAINTAIN THE SUBSTANCE OF PAST TRADE POLICIES WHILE MAKING ACCOMMODATIONS WITH APPEAR NECESSARY TO DEFLECT LEFTIST CRITICISM. THIS KIND OF BALANCING ACT, HOWEVER, MAY PROVE INCREASINGLY DIFFICULT IF THE LEVEL OF CRITICISM CONTINUES TO RISE. IF THE CAMPAIGN BECOMES AND EXTENDED ONE, TRADE OFFICIALS WILL PROBABLY BE FORCED TO REDUCE PURCHASES OF FOREIGN MACINERY AND TECHNOLOGY. OVER THE LONG RUN, HOWEVER, CHINA'S CONTINUING ECONOMIC NEEDS WILL DICTATE A RETURN TO POLICIES SIMILAR TO THOSE FOLLOWED IN 1973. CHINA'S TRADE OFFICIALS MAY, THEREFORE, BE WILLING TO DELAY SOME PURCHASES UNTIL AFTER THE CAMPAIGN , WHEN THE POLITICAL CLIMATE WOULD BE IMPROVED.
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